LINCOLN TELEPHONE COMPANY, INC.

Received & Inspected
JUN 26 2012
FCC Mail Room

June 25, 2012

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
9300 East Hampton Drive
Capitol Heights, MD 20743

Re: WC Docket No. 10-90, Annual 54.313 Report of High-Cost Recipient

Dear Ms. Dortch:

Enclosed herein is the annual report for Lincoln Telephone Company, Inc., Study Area Code 482244 pursuant to §54.313 of the Commission's rules.

Also enclosed is one copy of this cover letter to be stamped and returned in the enclosed self address stamped envelope.

Please contact me with any questions at:

Phone 406 362-4216
Email ltc@linctel.net

Sincerely,

Ken Lumpkin

Ken Lumpkin
Secretary/Treasurer/General Manager

Enclosures
Copies to:

Karen Majcher
Vice President-High Cost and Low Income Division
Universal Service Administrative Company
2000 L Street NW, Suite 200
Washington, DC 20036

Kate Whitney
Montana Public Service Commission
1701 Prospect Avenue
P. O. Box 202601
Helena, MT 59620-2601

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Lincoln Telephone Company, Inc.
2012 Annual 54.313 Report of High-Cost Recipient

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Certifications

In compliance with the following regulations, Lincoln Telephone Company, Inc., by Ken Lumpkin its Secretary/Treasurer/General Manager hereby certifies, subject to the penalties for false statements imposed under 18 U.S.C. § 1001, that:

47 CFR § 54.202(a)(1)(i) – It has made reasonable efforts to comply with the service requirements applicable to the support it receives, specifically:
High Cost Loop Support – the services listed and defined in 47 CFR § 54.101(a).
Lifeline Support – the three criteria set forth in 47 CFR § 54.401(a).
Interstate Common Line Support – the filings required in 47 CFR § 54.903 and the certification required in 47 CFR § 54.
Connect America Fund – the filings required in 47 CFR § 51.919(b).

47 CFR § 54.313(a)(5) – It has made reasonable efforts to comply with applicable service quality standards as stated in Administrative Rules of the State of Montana 38.5.33, Telecommunications Service Standards and consumer protection rules as defined in 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft.

47 CFR § 54.313(a)(6) – It has made reasonable efforts to function in emergency situations as set forth in 47 CFR §54.202(a)(2).

Certified by: Ken Lumpkin
Signature

Ken Lumpkin
Printed Name

Secretary/Treasurer/General Manager
Title

Lincoln Telephone Company, Inc.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(2) Detailed Information on any Outage in 2011

Lincoln Telephone Company, Inc. is ETC certified by the Montana Public Service Commission and outage data was not required in 2011 by the Commission.

54.313(a)(3) The number of requests for service from potential customers within the recipient's service areas that were unfulfilled during the prior calendar year were zero.

54.313(a)(4) The number of complaints to the Montana Public Service Commission per 1,000 connections in 2011 was one, which was related to the national call completion issue.

54.313(a)(5) Satisfactions of Consumer Protection and Service Quality Standards

<u>Consumer Protection</u>
Lincoln Telephone Company, Inc. complies with the requirements of 47 CFR Part 64 Subpart U, Customer Proprietary Network Information and the Federal Trade Commission Red Flag rules to prevent identity theft. A manual for each of those programs is in place and is part of the employees' handbook. Employee training is conducted annually and new hires are instructed on the programs as required by their job functions.

<u>Service Quality Standards</u>
Lincoln Telephone Company, Inc. complies with the service standards as promulgated in the Administrative Rules of the State of Montana 38.5.33, Telecommunications Service Standards.

Lincoln Telephone Company, Inc.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(a)(6) Ability to Remain Functional in Emergency Situations

Back-up Power
Lincoln Telephone Company, Inc. has the following back-up power capabilities:

Switches
- Genband C15
- 48V DC Battery Rack 20 hour run time
- AC Generator 500 Gallon Propane Fuel Tank 48 hour run time

Remote Central Office
- Calix
- 48V DC Battery Rack 20 hour run time
- AC Generator 500 Gallon Propane Fuel Tank 48 hour run time

Subscriber Carriers
- Calix or AFC
- 48V Batteries 4 hour run time
- Portable Gasoline Generators 8 hour run time

Network Interface Devices (NIDs)

Lincoln Telephone Company, Inc. has 920 customers with metallic (copper) connections to the Central Office and their NIDs are powered from the Central Office.

Lincoln Telephone Company, Inc. has 53 customers with non-metallic (fiber optic) connections to the Central Office. These customers' NIDs are battery powered in case of emergency. The batteries are rated to last 10 hours with no use and 6 hours with constant use.

Ability to reroute traffic around damaged facilities:
Lincoln Telephone Company, Inc. has built redundant facilities between its exchanges and / or to its connecting company / toll tandem. This redundant facility is in the form of a SONET ring with alternate physical facilities between Lincoln Telephone Company, Inc. and VisionNet, its interconnection to the Public Switched Telephone Network.

Capability to manage traffic spikes resulting from emergency situations
Lincoln Telephone Company, Inc. has 973 customers, switching capacity of 10,000 simultaneous calls, and transport capacity for 750 simultaneous calls. Lincoln Telephone Company, Inc. takes no responsibility for the capabilities of interconnected networks to manage traffic spikes resulting from emergency situations, but will continue its best efforts for its networks during such events.

Lincoln Telephone Company, Inc.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(f)(2) Audited Financial Report

Lincoln Telephone Company, Inc. has included an audited annual financial report as of year ended December 31, 2011 in this filing.

Lincoln Telephone Company, Inc.
2012 Annual 54.313 Report of High-Cost Recipient

54.313(h) Additional Residential Voice Rate Data
As of June 1, 2012

Rates and lines ABOVE the local urban rate floor of $10.00

Voice rate data	Rate	Count
Residential Local Service Rate -	$11.90	793
Mandatory EAS Charges	$ 2.05	
Average Monthly Usage Charge	$ 1.10	
Total	$15.05	

Rates and lines BELOW the local urban rate floor of $10.00

None.

Junkermier • Clark
Campanella • Stevens • P.C.

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Certified Public Accountants • Business Advisors

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lincoln Telephone Company, Inc.
Lincoln, Montana

We have audited the balance sheets of Lincoln Telephone Company, Inc., as of December 31, 2011 and 2010 and the related statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Telephone Company, Inc., as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 19, 2012 on our consideration of Lincoln Telephone Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and do not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

Junkermier, Clark, Campanella, Stevens, P.C.

Bozeman, Montana
March 19, 2012

LINCOLN TELEPHONE COMPANY, INC.
BALANCE SHEETS

	December 31 2011	December 31 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 173,677	$ 290,839
Accounts receivable - customers	82,540	96,600
Accounts receivable - other	95,429	77,159
Due from officers, employees and others	8,478	34,510
Material, supplies and inventory	41,279	48,400
Prepaid expenses	7,437	7,303
Income tax receivable	-	49,631
Prepaid income tax	29,060	27,840
	437,900	632,282
NONCURRENT ASSETS		
Non-marketable investments at cost	512,776	512,099
NET CATV PROPERTY AND ASSETS	50,457	61,285
NET UNREGULATED PROPERTY	239,705	295,001
PROPERTY AND EQUIPMENT		
Land	42,666	42,666
Buildings	235,759	235,759
Equipment	5,468,259	6,468,176
Plant under construction	20,974	166,270
	5,767,658	6,912,871
Less accumulated depreciation	(3,656,786)	(4,788,075)
	2,110,872	2,124,796
OTHER ASSETS		
Cash surrender value of life insurance	274,410	275,185
Totals	$ 3,626,120	$ 3,900,648

See the notes to financial statements.

LINCOLN TELEPHONE COMPANY, INC.
BALANCE SHEETS

	December 31	
	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Long-term debt due within one year	$ 76,292	$ 73,881
Accounts payable	16,062	182,179
Unmatured interest	298	444
Withholdings payable	7,893	1,128
Accrued tax expense	18,238	24,816
Customer deposits and advances	2,852	3,741
	121,635	286,189
LONG-TERM DEBT, net of current portion	718,710	795,101
DEFERRED TAX CREDITS		
Deferred income tax	233,603	308,800
OTHER LIABILITIES		
Estimated deferred compensation liability	28,625	46,327
Estimated postretirement benefits liability	573,683	537,096
	602,308	583,423
SHAREHOLDERS' EQUITY		
Capital stock, authorized 2,000 shares common, $25 par value, 98 shares issued and outstanding	2,450	2,450
Retained earnings - regulated	671,696	774,501
Retained earnings - unregulated	1,275,718	1,150,184
	1,949,864	1,927,135
Totals	$ 3,626,120	$ 3,900,648

See the notes to financial statements.

LINCOLN TELEPHONE COMPANY, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

	Years ended December 31	
	2011	2010
OPERATING REVENUE		
Local service	$ 212,125	$ 218,310
Access charges	78,530	79,285
Toll service	681,946	607,508
Miscellaneous	256,648	256,628
Uncollectible revenue	(20,090)	(5,658)
Special Access	27,296	26,341
	1,236,455	1,182,414
OPERATING EXPENSE		
Maintenance	460,554	385,948
Commercial	42,944	83,166
General office	304,542	338,662
Other operating expense	136,436	128,262
Other operating taxes	34,826	25,704
Access expense	11,137	6,048
Depreciation	337,876	287,103
	1,328,315	1,254,893
OPERATING INCOME (LOSS)	(91,860)	(72,479)
OTHER INCOME (EXPENSES)		
Estimated deferred compensation	(2,298)	(3,326)
Interest	(38,483)	(39,217)
Interest and dividend income	8,310	3,422
Gain on sale of equipment	-	9,250
	(32,471)	(29,871)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	(124,331)	(102,350)
INCOME TAXES EXPENSE (RECOVERED)		
Income taxes - regulated	(61,291)	(76,528)
Deferred income taxes	(59,011)	33,758
	(120,302)	(42,770)
NET INCOME (LOSS) BEFORE NONREGULATED INCOME	(4,029)	(59,580)
NONREGULATED INCOME (EXPENSE)		
Increase(decrease) in cash value of life insurance	(776)	(6,813)
Other income - unregulated	170,689	172,604
Income taxes - unregulated	(61,341)	(62,217)
Deferred Income taxes - unregulated	16,186	1,599
	124,758	105,173
NET INCOME	120,729	45,593
Retained earnings at beginning of year	1,924,685	2,001,592
Dividends declared and paid	(98,000)	(122,500)
RETAINED EARNINGS END OF YEAR	$ 1,947,414	$ 1,924,685

See the notes to financial statements.

LINCOLN TELEPHONE COMPANY, INC.
STATEMENTS OF CASH FLOWS

	Years ended December 31	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 120,729	$ 45,593
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	403,358	350,398
(Increase) decrease in:		
Material, supplies and inventory	7,410	8,776
Accounts receivable	(4,531)	(21,729)
Due from officers, employees and other	26,032	(5,844)
Prepaid expense	(134)	(306)
Cash surrender value of life insurance	776	6,812
Prepaid income taxes	(1,220)	(27,840)
Income tax receivable	49,631	(49,631)
(Decrease) increase in:		
Accounts payable	181	(7,458)
Unmatured interest	(147)	(148)
Withholdings payable	6,765	(1,052)
Customer deposits and advances	(889)	(22,795)
Accrued tax expense	(6,579)	1,016
Deferred income tax	(75,197)	32,159
Estimated deferred compensation liability	(17,702)	(16,675)
Estimated postretirement benefits liability	27,587	37,500
Income taxes payable	-	(28,951)
Net cash provided by operating activities	536,070	299,825
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of telephone plant assets	(481,951)	(301,402)
Purchase of CATV plant assets	(2,872)	-
Net cash used by investing activities	(484,823)	(301,402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term debt repaid	(73,980)	(69,474)
Long-term debt incurred	-	117,765
Dividends paid	(98,000)	(122,500)
Net cash used by financing activities	(171,980)	(74,209)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	(120,733)	(75,786)
Cash and cash equivalents beginning of year	303,950	379,736
CASH AND CASH EQUIVALENTS END OF YEAR	$ 183,217	$ 303,950

See the notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

The Company uses the accrual method of accounting to recognize income and expense. The financial statements include the revenue and expense of Linctel Communications, Inc. a one hundred percent owned subsidiary of Lincoln Telephone Company, Inc. The revenue and expense in included in the unregulated other income.

Material, Supplies and Inventory:

Material, supplies and inventory have been valued in accordance with Rural Utilities Services (RUS) guidelines at cost, using a first-in, first-out (FIFO) method.

Regulatory Authorities:

The accounting policies of the Company are in conformity with the requirements and authorizations of regulatory agencies.

Telephone Plant:

Telephone plant is stated at cost. Additions to the telephone plant represent direct costs and indirect charges for overhead items. Depreciation is computed using the straight-line and composite rate methods for financial statement purposes, over the useful lives, as recommended by the RUS.

Income Taxes:

The Company provides for the income tax effect of transactions reported in the financial statements. The provision includes taxes currently due plus the deferred taxes for timing differences in reporting depreciation expense and other liabilities for income tax and financial statement purposes. The Company's tax returns for the years prior to 2008 are generally no longer subject to examination.

Bad Debts:

The Company uses the direct write-off method for bad debts. This method does not result in an amount materially different than if the allowance method was used. The Company grants credit to its customers, the general public and businesses in its area, for telephone and CATV service.

Cash and Cash Equivalents:

For the purpose of the statement of cash flows, the Company only includes cash in financial institutions as cash and cash equivalents.

Use of Estimates:

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. The significant estimates are depreciation, deferred income taxes, and estimated deferred compensation and postretirement benefits liabilities.

Accounts Receivable:

Accounts receivable consists of local, access and toll revenue billed monthly. Customer accounts receivable are due by the tenth of the month. Customer accounts receivable that are twenty days old are assessed interest at the rate of 1% per month.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurement:

Professional standards establish a framework for measuring fair value of assets and liabilities in periods subsequent to initial recognition. Fair value is defined under professional standards as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The standards provide a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under professional standards are described as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted market prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The following methods and assumptions were used to estimate the value of each of the following classes of financial instruments for which is practical to estimate that value.

Cash – Due to their highly liquid nature, carrying value approximates fair value.

Receivables – Carrying value approximates fair value based on the present value of expected receipts, less an allowance for collectability, as applicable.

Non-marketable Investments – Non-marketable investments were valued using Level 3 inputs. Management has determined cost approximates value.

2. NET CATV PROPERTY AND ASSETS

The following summarizes the net CATV property and assets in service as of December 31:

	2011	2010
CATV plant and building	$ 495,983	$ 493,113
Rental house and land	38,056	38,056
	534,039	531,169
Less accumulated depreciation	(511,946)	(501,760)
Net CATV property	22,093	29,409
Cash	9,540	13,111
Materials	5,822	6,111
Accounts receivable - customers	12,658	12,337
Prepaid insurance and taxes	750	750
Less accounts payable	(406)	(433)
Net CATV property and assets	$ 50,457	$ 61,285

CATV Plant in service is stated at cost. Depreciation is computed using the following methods and estimated useful lives:

	Method	Years
CATV plant	Double-declining balance	5 and 7 years
Rental house	Straight-line	27 1/2 years
CATV head end building	Straight-line	31 1/2 years

Depreciation expense of $10,186 and $7,999 in 2011 and 2010, respectively, is classified in other income - unregulated.

3. LONG-TERM DEBT AND RELATED COLLATERAL

	2011	2010
Rural Utilities Service mortgage due in quarterly payments of $11,581, including interest at 2% through January 2014, secured by mortgage on the telephone plant and equipment.	$ 89,326	$ 133,317
Rural utilities service mortgage due in monthly payments of $777 including interest at 3.626% through March 2027; secured with telephone plant and equipment.	114,801	114,801
Rural utilities service mortgage due in monthly payments of $4,732 including interest at 5.27% through March 2027; secured with telephone plant and equipment.	590,875	620,864
	795,002	868,982
Less current portion	(76,292)	(73,881)
Long-term portion	$ 718,710	$ 795,101

The following is a summary of maturities due on long-term debt as of December 31:

Years ending December 31		
2012	$ 76,292	
2013	77,475	
2014	34,710	
2015	36,483	
2016	38,350	
Subsequent years	531,692	
Total		$ 795,002

4. PENSION PLANS

Employee Savings Plan
The Company has a defined contribution savings plan covering all employees after one-half year of service. All funds are 100% vested. Employees' contributions are voluntary and cannot exceed 10% of compensation. The employer contributed 1% of the employees' compensation or $3,783 and $3,614 in 2011 and 2010, respectively.

Employee Retirement Plan
The Company has a defined benefit pension plan covering all employees after one-half year of service. Employees are 100% vested after completion of one year of service. The Company is required to contribute 8.1% of the employees' compensation. The employees' contributions are voluntary and cannot exceed 10% of compensation. The Company's contribution to the trust totaled $38,704 and $37,456 in 2011 and 2010, respectively.

4. PENSION PLANS (Continued)

The plan is a multi-employer defined benefit plan sponsored by the National Telephone Cooperative Association. Information is disclosed in the aggregate and unavailable for each separate participating company. Consequently, actuarial present value of accumulated plan benefits, vested and unvested, and the net assets disclosures are not available by separate companies.

5. INCOME TAXES

Income taxes expense is comprised of the following:

	2011	2010
Current income taxes expense (benefit) - regulated	$ (61,291)	$ (76,528)
Current income taxes expense - unregulated	61,341	62,217
Deferred income taxes expense (benefit) on excess tax depreciation over book depreciation	(138,274)	44,518
Deferred income taxes (benefit) on deferred compensation liability on books	10,470	6,041
Deferred income taxes (benefit) on stock retirement	-	-
Deferred income taxes (benefit) on post retirement benefits liability on books	68,793	(16,801)
Deferred income taxes on unregulated depreciation	(16,186)	(1,599)
Income taxes expense	$ (75,147)	$ 17,848

6. DEFERRED INCOME TAX CREDITS

Deferred income tax liability of $233,603 in 2011 and $308,800 in 2010 is recorded to reflect the timing difference arising from accelerated depreciation for income tax purposes and book depreciation and other liabilities set up for financial statement purposes not deductible for tax purposes until paid.

7. OTHER INCOME (EXPENSE) AND RETAINED EARNINGS - UNREGULATED

Other income (expense) and retained earnings - unregulated consists of the following:

	2011	2010
CATV revenue	$ 162,926	$ 162,697
CATV expense	(171,328)	(160,587)
CATV income (expense)	(8,402)	2,110
Other unregulated income - net	179,091	170,494
Net unregulated income	170,689	172,604
Income tax (expense) unregulated	(45,155)	(60,618)
Net other unregulated income	125,534	111,986
Retained earnings at beginning of year - unregulated	1,150,184	1,038,198
Retained earnings at end of year - unregulated	$ 1,275,718	$ 1,150,184

8. CASH FLOWS STATEMENTS

The cash flows statements for the years ended December 31, 2011 and 2010 present changes in cash in financial institutions. No marketable investments were considered cash equivalents in the cash flows statements.

Regulated and unregulated assets and liabilities have been combined in the adjustments to reconcile net income to cash provided by operating activities.

The following discloses the amount of interest and income taxes paid:

	2011	2010
Interest	$ 38,629	$ 39,366
Income taxes	$ -	$ 92,111

Income taxes paid included 2011 and 2010 estimated tax payments of $0 and $63,160, respectively.

9. FUTURE TREASURY STOCK

Twenty shares of Lincoln Telephone Company, Inc., stock are held in trust with Robert Orr, Company President and 12% shareholder, as trustee with income to be paid to the heirs of Thelma S. Hines for their lifetimes and then the stock reverts back to the Company. The Company paid Montana inheritance tax of $2,240 in 1990 on these shares of stock.

10. EXECUTIVE SECURITY PROGRAM

The Company has established an unfunded benefit plan for a select group of management. The Board has agreed to pay the retired manager $30,000 a year for five years starting July 1, 2003 and then $20,000 a year for five years starting July 1, 2008. In the event a participant dies prior to retirement, a death benefit of $10,000 a year for ten years will be paid. No portion of a participant's retirement benefit shall accrue to them prior to the date they first satisfy the retirement age requirements. The Company has purchased a split dollar life insurance policy on two of its key employees. The cash surrender value will be used to meet the future retirement obligations. Both of the policies have a $500,000 face amount, with the Company beneficiary on $400,000 and the employee's beneficiary receiving $100,000. The Company has determined the present value of the future retirement benefits and is amortizing these amounts over the additional years of service required of covered employees until age 62. The amount amortized as of December 31, 2011 and 2010 is classified as estimated deferred compensation liability in the accompanying balance sheets. The agreement with the ex-controller was terminated in 1997 and the Company became the only beneficiary of the corresponding policy. The amount of the deferred compensation liability set up for the ex-controller was terminated in 1997 and the company became the only beneficiary of the corresponding policy. The amount of the deferred compensation liability set up for the ex-controller was adjusted to zero in 1997. A partial withdrawal of $60,077 against the cash surrender value on the ex-controller's policy was processed in 2002 and used to pay the off the loan on the policy. A final distribution of the cash surrender value on the ex-controller's policy was received in 2007 in the amount of $92,327. A partial withdrawal of $149,825 against the cash surrender value on the Company's president was used to pay off the loan on the policy. The death benefit on the policy was reduced to $354,226. The policy on the retired manager was exchanged for a new policy with Harford Life Insurance Company in the sum insured of $686,287. A new policy was purchased on the current manager in 2008 with Security Life of Denver/ING in the sum insured of $512,181.

11. COMMITMENTS

The Company has accepted particular covenants in regard to the Rural Electrification Administration and Rural Telephone Bank mortgages (see Note 4). The covenants include required insurance coverage, and asset and net worth requirements before dividends can be paid or salaries increased.

12. CASH FLOWS STATEMENT - CASH AND CASH EQUIVALENTS

The following reconciles cash and cash equivalents at year end in the statements of cash flows to the balance sheet:

	2011	2010
Cash and cash equivalents - balance sheet	$ 173,677	$ 290,839
Cash and cash equivalents - CATV assets - footnote #2	9,540	13,111
Totals	$ 183,217	$ 303,950

13. ESTIMATED POSTRETIREMENT BENEFITS LIABILITY

The Company sponsors an unfunded defined benefit postretirement health and dental care plan covering all employees. The employees are subject to required contributions based upon years of service. The following summarizes the valuation of the unfunded accumulated postretirement benefit obligation (APBO):

	2011	2010
Expected postretirement benefit obligation		
January 1 - active participants	$ 426,071	$ 386,993
January 1 - retired participants	399,565	397,197
	$ 825,636	$ 784,190
Unfunded APBO January 1 - active participants	$ 155,974	$ 124,655
Unfunded APBO January 1 - retired participants	399,565	394,455
Net periodic postretirement benefit cost:		
Service cost	17,473	16,183
Interest cost on APBO	29,765	29,229
Expected benefit payments	(29,094)	(27,426)
Unfunded APBO December 31	$ 573,683	$ 537,096

For measurement purposes a 9.0% annual rate of increase in the per capita cost of covered health and dental care benefits was assumed for 2011. The rate was assumed to decrease gradually to 5% in the year 2011 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1% each year would increase the accumulated postretirement benefit obligation as of January 1, 2011 by $55,868 and the aggregate of the service and interest cost components of net periodic postretirement benefit for the year then ended by $10,405.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 5.5% for 2011.

14. CONTINGENT LIABILITY

The Company is a self-insured member of the Montana Electric and Telephone Workers' Compensation Pool (the Pool). The Company is jointly and severally liable with the other members of the Pool for the full amount of any and all known and unknown Montana Workers' Compensation claims and occupational disease benefits as required of the Pool by law.

The Pool has contracted with a third party administrator to provide certain claims and administrative services. The Pool has purchased excess claim insurance. As of December 31, 2011 and 2010, there were no unfunded claims of the Pool that the Company was jointly liable for with the other members of the Pool.

15. CASH DEPOSIT CONCENTRATION

Interest bearing account balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per bank, per depositor. In addition to that coverage, all non-interest bearing transaction accounts are fully insured through December 31, 2012. As of December 31, 2011 and 2010, cash held in interest bearing accounts at First Bank Lincoln did not exceed federally insured limits.

16. NON-MARKETABLE INVESTMENTS

Non-marketable investments include an investment in Vision Net, Inc., a communication facilities leasing company, in the amount of $480,507 and $480,507, as of December 31, 2011 and 2010, respectively, which represents 5.4% ownership in the Company. The investment is accounted for using the cost method.

17. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 19, 2012, the date these financial statements were available to be issued.